STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Northern Illinois Gas Company	)	
	)	**01-0439**
Application for approval of Accounting	)	
treatment associated with the sale of	)	
off-system storage services to third parties	)	

REPLY BRIEF OF THE STAFF OF THE ILLINOIS COMMERCE COMMISSION

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NOW COMES the Staff of the Illinois Commerce Commission ("Staff") through its attorneys, and files its Reply Brief in the above captioned proceeding.

I. Introduction

Staff in this Reply Brief will respond to certain arguments made by Northern Illinois Gas Company d/b/a Nicor Gas Company ("Nicor" or "Company"). The absence of a response by Staff to any argument made by Nicor should not in any way be construed as acquiescence in or approval of said argument made by Nicor.

Staff's Reply Brief addresses the following: the requested accounting treatment violates long-standing Commission policy; there is sufficient incentive for Nicor to move forward with the Expansion project, the benefits to ratepayers are negligible; the proposed cost allocations and claims of ratepayer benefits are suspect; ratepayers would end up bearing the costs and risks associated with the Expansion project; the proposed cost allocations would result in the subsidization of non-utility service with regulated assets; the Company has failed to support its engineering assessments with studies and calculations and finally approval of Nicor's request would provide an incentive to Nicor to utilize regulated facilities and PGA assets to subsidize the non-utility Expansion service. For all these reasons as well as those previously stated, the Commission should deny Nicor's request for an alternative accounting treatment for revenues associated with the proposed Expansion.

II. Argument

A. Nicor's Requested Accounting Treatment Violates Long-Standing Commission Policy

Nicor argues that the inability to detect inappropriate actions should not be a basis for rejecting the Company's Requested Accounting Treatment for the proposed Expansion service. (Nicor IB, p. 26) Nicor argues that such a policy would constrain utility "innovation and creativity." (Nicor IB, p.26) However, the Commission has established consistent, longstanding policies requiring 100% of the revenues generated from off-system services, such as Nicor's proposed Troy Grove expansion ("Expansion") service, to flow through the Purchased Gas Adjustment clause ("PGA"). In Docket No. 94-0403, the Commission established Code Part 525, Purchased Gas Adjustment Clause, which requires 100% of all revenues generated from off-system services, such as the Company's proposed Expansion service, to flow through the PGA.

The Commission's Conclusion in the Final Order in Docket No. 94-0403 stated, "The Commission is concerned that revenue sharing would create incentives for utilities to subsidize off-system transactions with on-system transactions and could therefore result in PGA gas charge increases." (Docket No. 94-0403, Order at 10) Clearly, if the Commission believed that detection of all instances of cross-subsidization of off-system services with PGA transactions was possible, or that the Commission's inability to detect such cross-subsidization should not have a bearing on the treatment of revenues from off-system sales, then the Commission would have approved some form of revenue sharing for off-system transactions. The Commission did not approve such sharing arrangements, instead requiring gas utilities to flow 100% of the revenues from off-system sales through the PGA. (Staff IB, p. 9)

In Docket No. 95-0219, Nicor's last rate case, the Commission upheld its policy of requiring gas utilities to flow 100% of the revenues associated with off-system sales through the PGA. (Staff IB, pp. 4-6)

The Commission again upheld its longstanding policy as recently as February 2002. In Docket No. 00-0710, Central Illinois Light Company's ("CILCO's") PGA reconciliation, CILCO argued that certain management fee revenues related to the management of a customer's gas supplies including, but not limited to, pricing and pipeline rate analysis, daily and monthly pipeline balancing, nominations, scheduling, and metering, should not flow through the PGA. (Docket No. 00-0710, Order at 2) In defending its position to retain the management service revenues, Cilco "…implied that not allowing Cilco to share in the revenues is a disincentive to enter into these types of transactions." (Docket No. 00-0710, Order at 6) As it had in Docket No. 94-0403, the Commission concluded, "The Commission's interest in CILCO offering such services to non-jurisdictional customers is outweighed by the Commission's interest in protecting CILCO's regulated gas customers." (Docket No. 00-0710, Order at 9) In essence, the Commission concluded that it is more important to protect ratepayers from potential gas cost increases associated with non-jurisdictional services, such as Nicor's proposed Expansion service, than to encourage the offering of services, which are supported by recoverable gas costs as defined in Code Part 525.40(a), to non-jurisdictional customers.

B. Nicor has Sufficient Incentive to Go Forward with the Expansion Project Under the Current Accounting Treatment

Nicor argues that the current accounting treatment of off-system revenues does not provide sufficient incentive to invest in projects such as the Troy Grove Expansion project. (Nicor IB, p. 16) In describing the purported lack of incentives under the current accounting treatment, Nicor avoids any discussion of the potential to earn an authorized rate of return on the investment in the Troy Grove Expansion project and recover the costs associated with the Expansion through base rates.

Indeed, a review of Nicor's position in the instant proceeding would lead one to believe that the Company's only recourse under the current accounting treatment is to shoulder the entire cost of the Expansion project and flow all revenues associated with the Expansion project through the Purchased Gas Adjustment mechanism ("PGA"). According to Nicor, the only possibility for the Company to benefit from investing in the Expansion project under the current accounting treatment would be through the temporary 50/50 sharing of all Expansion project revenues under the Company's Performance-based rate ("PBR") program[1]. Record evidence in this case demonstrates otherwise.

Nicor's "lack of incentives" argument falls apart when the potential to earn an authorized rate of return and recover costs associated with the Expansion through base rates is considered. Nicor fails to explain why this accounting treatment, which is currently available subject to the Company demonstrating

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[1] The sharing of all revenues generated from the Expansion project would likely be temporary because the benchmark against which Nicor's performance is measured could potentially be

that the Troy Grove Expansion project is prudent and "used and useful", provides insufficient incentive to invest in the Expansion. In addition, Nicor's "lack of incentives" argument is contradicted by the sale of off-system services under current accounting treatments.

Nicor has historically provided storage services from its regulated facilities, such as the Troy Grove storage field, to off-system customers under a Federal Energy Regulatory Commission ("FERC") approved tariff. Nicor's off-system sales have generated more than $1 million in revenues each year for the past five years, and Nicor admits, "…it would be possible for the Company to sell expanded storage capacity off-system in the same manner as currently." (Staff Group EX. 1, ENG. 1.33) Under the current accounting treatment, Nicor earns an authorized rate of return and recovery of the costs associated with the regulated facilities that support off-system services, and the revenues generated from the off-system services flow through the PGA to offset gas costs. This creates a win-win situation for both Nicor and ratepayers. Nicor benefits from the ability to earn an authorized rate of return on its investment, and ratepayers benefit from a reduction in gas costs made possible through off-system services supported by regulated facilities.

This win-win situation also minimizes concerns over 1) the cross-subsidization of off-system services with regulated facilities, 2) insufficient cost allocations from regulated facilities to the non-utility services, and 3)

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adjusted to reflect the expected revenues from the Expansion project in future reviews of the Company's PBR program.

displacement transactions that result in PGA cost increases.[2] While the potential for these types of cross-subsidization would still exist under the current accounting treatment, the incentive to cross-subsidize would be diminished because any additional revenues that were generated from such cross-subsidization would offset PGA costs rather than be retained by Nicor.

The Company attempts to confuse the issue at hand by putting forth the misguided characterization that Staff opposes the Expansion project. Nicor states, "Staff's "Just Say No" approach is contrary to the public interest." (Nicor IB, p.21) Nicor argues that the proposal to expand Troy Grove would enable the Company to provide valuable services to gas marketers and gas-fired electric generators. (Nicor IB, p. 9,11)

Staff agrees with Nicor's assessment of the value that the proposed Expansion service would provide to gas marketers and gas-fired electric generation owners. Staff does not oppose the Expansion project per se. Rather, Staff opposes the Company's requested accounting treatment for revenues generated from the proposed Expansion project. The structure of the Company filing in the instant proceeding, does not allow Staff to analyze whether the Commission should grant Nicor recovery of the costs associated with an expansion of the Troy Grove storage field. Nicor would first have to file tariffs seeking recovery through rates of rate base investments including the Expansion project, and then demonstrate that the Expansion project was "prudently

[2] The incentive to cross-subsidize the Expansion service through the use of regulated facilities and PGA assets under the Company’s requested accounting treatment as well as the Commission’s long-standing policies that mitigate such incentives have been well documented by Staff in the instant proceeding. (See Staff’s Initial Brief, pp. 4-16)

incurred" and "used and useful" in accordance with Section 9-211 of the Illinois Public Utilities Act. (220 ILCS 5/9-211) Only then could Staff perform an appropriate analysis and make a recommendation as to whether the Commission should allow Nicor to earn an authorized rate of return on an Expansion project investment and recover the costs associated with the Expansion through base rates.

In the instant proceeding, Nicor provided an analysis of the economic and operational feasibility of using the proposed Expansion to provide service to on-system customers. Nicor concluded "...that expansion of Troy Grove for on - system use would not yield the best cost alternative compared to other supply resources and services." (Nicor IB, p. 7) Nicor's analysis failed to consider the benefit that ratepayers would receive (in the form of a credit to gas costs) as a result of additional off-system revenues generated from the Expansion service. (Upshaw Direct, Exhibit LWU-2) Clearly, the Expansion service is expected to generate net benefits; otherwise, Nicor would not be requesting below-the-line treatment for the costs and revenues associated with the Expansion project.

C. Ratepayer Benefits Under Nicor's Proposal are Negligible

The Company states "… ratepayers would benefit directly from increased operational efficiency and reliability of Troy Grove storage as a result of the expansion project." (Nicor IB, p.12) Staff disagrees. The primary purpose of storage for ratepayers is to provide peak day withdrawal capacity; therefore "excess" capacity at other than peak conditions already exists, and additional excess capacity built at Troy Grove will not provide significant benefits to ratepayers. The Company makes no claim that the Expansion project will enhance peak day operating conditions for ratepayers. The Company has not identified any past problems with the Troy Grove storage field's reliability. Further, the Company has not quantified the dollar value of benefits it claimed for ratepayers. The Commission should not rely on questionable, claimed benefits, which are unsupported by any quantified analysis, as a basis for approving the project. (Staff EX. 2.0, pp. 23-24)

D. Nicor's Cost Allocations and Claims of Ratepayer Benefits are Suspect

Nicor claims that ratepayers would directly benefit from the Company's proposal because Nicor would credit the PGA with $1 million annually until the Company's next rate case. Upon completion of the Company's next rate case, Nicor "…would remove $377,300 in annual operating and maintenance costs, depreciation and return on a portion of rate base assets from revenue requirements during its next general rate case." (Nicor IB, p.13) Nicor also claims that customers would be spared an additional $550,800 in return and depreciation on a purported $4 million capital outlay that would "most likely" be classified as utility property if the company did not invest in the Expansion project. (Nicor IB, p.13)

First and foremost, Nicor's estimated level of benefits does not include an estimate of the costs that ratepayers may incur as a result of cross-subsidization of non-utility service with rate base assets or displacement transactions that raise gas costs.

Second, the offer to flow $1,000,000 through the PGA until the conclusion of the Company's next rate case was not even part of the Company's original proposal. The Nicor witnesses proposed no credit to the PGA in their direct testimonies. On pages 4-5 of his rebuttal testimony, Mr. Harms amended his original proposal by offering to flow $1,000,000 through the PGA until the conclusion of the Company's next rate case. Even under the proposal in Mr. Harms' rebuttal testimony, ratepayers would not be credited with the full $1 million. Because the Company's PBR program requires the Company and customers to share equally in the difference between gas costs and the benchmark designed to track gas costs, ratepayers and the Company would split the $1,000,000 equally. Gas costs would only be offset by $500,000 because the Company's proposed $1,000,000 flow through was not included in the determination of the benchmark. Thus, the $1,000,000 would be treated as "savings," and the Company would be entitled to half of those "savings." (Staff EX. 5.0, pp.19-20)

Finally, in a response to Staff data request POL 1.12, which questioned the proposal in Mr. Harms' rebuttal testimony, Nicor indicated that it would not include the $1 million as part of PBR/PGA comparison so that the entire $1 million would be credited to PGA costs. (Staff EX. 5.0, pp.19-20) While Staff regards the temporary $1 million annual credit to the PGA as insufficient to compensate ratepayers for the use of regulated facilities and PGA assets (such as commodity contracts, leased storage and transportation capacity) that would support the Expansion service, Staff questions why the Company did not include the $1 million credit in its original proposal.

Setting aside questions about the propriety of the Company's original proposal and subsequent proposals to credit the PGA as compensation for the use of regulated assets, the Company's attempt to "sweeten the pot" should not persuade the Commission to approve the Company's requested accounting treatment. The proposed annual credit to the PGA only ensures that ratepayers will be relieved of an amount that is somewhat greater than the Company's insufficient cost allocation proposal until such time that the costs can be removed from base rates. Staff considers this cost allocation to be insufficient since the Expansion service would rely on the Company's entire distribution system as noted by Staff witness Anderson on pages 18-19 of his direct testimony. Furthermore, an annual credit of $1 million to gas costs, replaced by a subsequent reallocation of $377,300 in base rate costs, would do nothing to eliminate the incentives to cross-subsidize the Troy Grove expansion service with distribution system and PGA assets. (Staff EX. 5.0, p.20)

In addition, Nicor improperly characterizes its proposal to remove $377,300 from base rate costs during its next general rate case as a benefit to ratepayers, and "dreams up" a purported savings of $550,800 in return and depreciation on a $4 million capital outlay that would "most likely" be classified as utility property if the Company did not invest in the Expansion project. (Nicor IB, p. 13)

With respect to the removal of $377,300 from base rates, Staff has argued that the proposed Expansion service would be operationally dependent on regulated assets that ratepayers pay for through base rates and that the Company's proposed cost allocation between its utility and non-utility operations is suspect. (Staff EX. 2.0, p. EX. pp. 16-19; Staff EX. 1.0, p. 8) Thus, the proposed $377,300 represents an insufficient allocation of costs to the Troy Grove expansion service. The reliance of the Expansion project on regulated assets is addressed in greater detail in Sections E, F, and H below.

The depreciation and rate of return on a purported $4 million of capital overhead that the Company claims will be allocated to the Troy Grove expansion service are also suspect. The rate of return and depreciation on the $4 million of capital overheads total approximately $550,800. In an attempt to justify the allocation of the capital overheads as a "benefit" to ratepayers, Nicor claims that the $4 million of capital overheads that the Company proposes to allocate to the Troy Grove expansion project "…would most likely be classified as utility property if the Troy Grove project did not proceed." (Nicor IB, p. 13) The suspect nature of this purported benefit is the Company's use of the phrase "most likely" in describing whether ratepayers would actually be allocated such costs in the absence of the Expansion project.

Staff argues that the capital overheads of $4 million would not be charged to rate base if the Company did not move forward with the Expansion project. Assuming the Troy Grove project would be in addition to any existing projects in Nicor's utility capital budget, the $4 million of allocated overhead associated with the Troy Grove expansion project would be incremental to the overhead that would be allocated to rate base projects. Under this assumption, if the $26 million were not expended on the Troy Grove project, there likewise would be no $4 million allocation of overhead to utility capital projects. In order for the $4 million to be allocated to utility rate base, one must assume that the $26 million earmarked for the Troy Grove project would instead be spent on additional rate base projects. (Staff EX. 5.0, p.18) Nicor does not refute this argument.

E. Ratepayers will Shoulder the Costs and Risks Associated with the Expansion Project

Staff has consistently argued that the co-mingling of regulated and unregulated facilities will result in the subsidization of the expansion service at the expense of ratepayers. The Company concedes that "…because the Troy Grove Project would involve expansion of existing storage facilities used to serve the Company's on-system customers, some of the assets that would be utilized in connection with the proposed storage service are obviously reflected in Nicor Gas' base rates." (Nicor IB, p. 19) However, the Company contends that its cost allocation methodology fairly and properly allocates costs between regulated utility and non-utility operations. (Nicor IB, pp. 20-21) Staff disagrees. The Company's proposed Expansion would create a lucrative non-utility storage service that is co-mingled and subsidized by existing regulated utility assets.

The Company's $26 million investment in the Troy Grove expansion increases deliverability by 15% and inventory by 10%. The existing regulated utility rate-based facilities at Troy Grove storage field dwarf the small incremental increases in deliverability and inventory resulting from the Company's $26 million investment. The non-utility storage expansion of Troy Grove is co-mingled, and its operation is entirely dependent on existing rate-based facilities. (Staff IB, pp. 25-30) Without the existing regulated utility rate-based reservoir, recoverable and non-recoverable gas, injection/withdrawal wells, monitoring wells, gathering system, and plant facilities, the Company's expansion service could not function.

With respect to the use of regulated assets that support the non-utility Expansion service, Nicor claims "…this type of co-mingling and allocation are wholly consistent with 83 Ill. Adm. Code Part 506, which provides for cost allocation of shared facilities that are used to provide both utility and non-utility services." (Nicor IB, p. 21) However, Code Part 506 does not require the Commission to approve the use of rate base assets in the provision of non-utility services such as the proposed Expansion service. Furthermore, Code Part 506 does not provide any specific methodology for allocating costs between utility and non-utility services, nor does it provide direction on how costs should be allocated between utility and non-utility service that relies on rate base assets. (Staff EX. 5.0, p. 16) In short, the existence of Code Part 506 is virtually irrelevant to the central question of whether the Commission should grant Nicor's requested accounting treatment.

F. Nicor's Cost Allocations will Result in the Subsidization of the Non-Utility Expansion Service with Regulated Assets Used to Service Ratepayers

The Company states "Staff's suspicions of utility malfeasance and imprudence are, however, wholly speculative and unwarranted. For costs that can be tied directly to the expansion project, such as operating and maintenance expenses of the new compressor and dehydration facilities, Nicor Gas proposes to directly transfer the cost below the line, and there could obviously be no question of cross-subsidization." (Nicor IB, p. 20) Staff disagrees. Nicor's attempt to simplify cost allocation issues masks the inherent shortcomings of the Company's proposal. The issue is more complicated than the Company would have the Commission believe. Merely transferring expansion equipment operation and maintenance cost below the line will not shield ratepayers from the costs of providing non-utility services. As discussed in Staff's Initial Brief, the new compression and dehydration facilities are co-mingled with regulated utility assets. (Staff IB, pp. 28-35) The Company will use existing and new dehydration and compression units together and interchangeably to meet total flow requirements from Troy Grove. The Company will not operate dehydration and compression facilities separately to meet regulated utility and non-utility flow requirements.

Further, the Company's use of displacement transactions for non-utility storage service complicates the operating cost allocation problem between regulated utility and non-utility operations. It is extremely difficult to reasonably allocate these displacement transactions between utility and non-utility operations. (Staff IB, pp. 33-35) This makes operating and maintenance costs for the new compressor and dehydration facilities difficult, if not impossible, to reasonably associate with utility or non-utility operations.

The Company goes on to state "For joint costs that are common to utility and non-utility storage services, the Company proposes to base its allocation on the percentage increase in top gas capacity that would be added to the Troy Grove storage field as a result of the expansion project, which is approximately 10 percent (5 Bcf / 48.1 Bcf)….This is an entirely reasonable approach." (Nicor IB, p. 20) Again, Staff disagrees. The Company's cost allocation proposal is inadequate and will result in ratepayer subsidization of non-utility operations.

As Staff discussed in Staff's Initial Brief, the Company's proposed method of cost allocation does not adequately reflect actual operating costs of regulated utility and non-utility facilities. (Staff IB, pp. 31-35) The Company is proposing to operate at Troy Grove a multi-cycle non-utility storage service that will cycle its inventory many times during the year. However, ratepayers are paying for a seasonal winter peaking utility service at Troy Grove that cycles its inventory, at best, once a year. Cost allocation based on the Company's proposal would clearly provide a subsidy to the non-utility operation, since multi-cycling is not considered in the Company's cost allocation methodology. Staff's example (Staff IB, p. 32) of the impact of cycling the non-utility storage service 3 to 4 times during the year clearly demonstrates the inadequacy of the Company's cost allocation methodology. The Company presented no testimony to refute Staff's position on cost allocation.

G. The Company's Purported Engineering Assessments are Wholly Unsupported by Any Engineering Studies or Calculations

The Company purports to have determined through engineering assessments "...that Troy Grove requires non-recoverable base gas equal to approximately 28% of its total gas in inventory in order to sustain sufficient pressure to support normal cycled storage volumes." (Nicor IB, p. 2, Footnote 1) Staff questions this determination. Nicor failed to provide any engineering studies or calculations to support the Company's proposed classification of natural gas in the Troy Grove storage field after expansion. The "engineering assessments" referenced by the Company are a mystery to Staff. The Company did not provide any engineering assessments to Staff, even after repeated requests. Staff's Direct and Rebuttal Testimony exposes the Company's failure to provide any support for its classification of natural gas associated with the Expansion project. (Staff EX. 2.0, pp. 7-9; Staff EX. 4.0, pp. 3-6) The Company's "engineering assessment" is an unsupported speculation. Coincidently, as is demonstrated on pages 17 to 25 of Staff's Initial Brief, the classification of Expansion project natural gas results in the subsidization of non-utility operations by utility ratepayers. The Commission should recognize Nicor's "engineering assessment" for what it is, an unsupported gas classification that provides a windfall for Nicor's proposed non-utility Expansion.

H. Record Evidence Demonstrates that Nicor Would have an Incentive to Utilize Regulated Facilities and PGA Assets to Subsidize the Proposed Non-Utility Expansion Service

The incentive for Nicor to cross-subsidize the proposed non-utility Expansion service through the use of PGA-related supply contracts, leased storage, and transportation capacity, on-system storage and other regulated facilities has been well documented throughout the course of this proceeding. (Staff EX. 1.0, pp. 9-16; Staff EX. 5.0, pp. 5-16; Staff EX. 2.0, pp. 4-24) Staff will not rehash those arguments in this reply brief. However, one glaring contradiction in the Company's position on the impact of displacement transactions should be noted. In addressing the impact of displacement transactions associated with the proposed Expansion service, Nicor claims the following:

> Through the use of displacement, Nicor Gas would not change the amount of gas it purchases from various pipelines, as with or without displacement the same quantity of gas world be purchased by the Company and delivered through the same pipelines. Displacement—again, as the term is used by the Company—only affects the proportion of the delivered gas that is injected into storage, as compared with the proportion that is delivered directly to end users. Consequently, displacement could not have <u>any</u> impact on Nicor Gas' supply costs. (Nicor IB, p. 22)

In describing the impact of displacement transactions when Expansion service customers seek to deliver gas to receipt points other than the primary receipt points on the two pipelines that are directly connected to the Troy Grove storage field, Nicor contradicted the above claims when it stated the following:

> Therefore, if the off-system customer sought to deliver gas to Nicor Gas from any other pipeline, and that action could potentially increase ratepayers' gas costs, the Company could and would refuse the receipt. Alternatively, if such volumes would <u>reduce</u> on-system ratepayers' supply costs, Nicor Gas would have the option to accept such volumes. (Nicor IB, p. 22)

On the one hand, Nicor argues that displacement "…could not have <u>any</u> impact on Nicor Gas' supply costs." On the other hand, Nicor argues that Expansion service customer deliveries could indeed affect gas costs; however, Nicor claims that it would only accommodate such deliveries through displacement if the transactions resulted in a decrease in gas costs to ratepayers. Nicor's promise to shield ratepayers from Expansion service customer activity that would increase PGA costs is not reassuring. Staff's concern over the impact of Expansion service customer deliveries on PGA costs is magnified because Nicor has played so "fast and loose" with the term "displacement," a term that is not defined in either Nicor's lone Expansion service contract or the FERC tariff that would govern the terms of the Expansion service. (Staff EX. 5.0, p.7)

The lack of appropriate ratepayer protections in the only existing contract for the proposed Expansion service highlights additional concerns. The Company argues that revenues from the Expansion project would be generated from fixed demand charges and, thus, the Company would have no incentive to enter into displacement transactions that raised gas. (Nicor IB, p. 21) This argument is flawed for several reasons.

First, Nicor fails to recognize the flexibility that was already afforded to the customer that entered into the only Expansion service contract to date. This flexibility has been well documented despite Nicor's attempts to argue that the customer has very little receipt point flexibility. (Staff IB, pp. 10-12) Second, Nicor neglects to mention that the term of the existing contract will eventually expire and would likely be renegotiated without any Commission oversight. Third, the incentive to provide greater receipt point flexibility exists prior to contract execution because such flexibility would add value to the Expansion service and increase the value that Nicor would receive in exchange for the Expansion service. More than 30% of the capacity associated with the proposed Expansion is not under contract. Future contracts are not likely to contain provisions that protect ratepayers, as the contract will be negotiated without any Commission oversight.

III. Conclusion

Nicor's arguments in support of an alternative accounting treatment for Expansion service revenues are not persuasive. Staff maintains that the proposed non-utility Expansion project would be operationally dependent on existing utility rate-based facilities at the Troy Grove storage field and other assets across Nicor's distribution system. Nicor's claim that it is possible to allocate costs between utility and non-utility service in a straightforward manner is refuted by the evidence in this proceeding.

Contrary to Nicor's claims that ratepayers would not be harmed if the Commission granted Nicor's request for an alternative accounting treatment, the Commission has historically expressed concerns over cross-subsidization of off-system services with regulated assets. The Commission has established longstanding policies, which protect ratepayers from the type of exposure they would experience under Nicor's requested accounting treatment, requiring revenues generated from off-system services, such as revenues generated from the proposed Expansion, to flow through the PGA. Despite Nicor's claims, approval of Nicor's requested accounting treatment would result in the co-mingling of utility and non-utility assets and operations, which would lead to the subsidization of non-utility service with regulated utility assets. Specifically, Nicor's requested accounting treatment would provide the Company with incentives to subsidize the non-utility Expansion service with the use of rate base assets at the Troy Grove storage field, rate-base assets across Nicor's distribution system and PGA assets, such as commodity contracts, leased storage, and transportation capacity. Since the costs of rate base and PGA assets are recovered from ratepayers, such subsidization would be at the expense of Nicor's captive ratepayers, specifically sales service customers and small volume transportation customers, for the betterment of Nicor's non-utility Expansion operations. Nicor’s proposed cost allocations and temporary $1 million annual PGA offset do not sufficiently compensate ratepayers for the use of regulated utility assets.

Wherefore, for the foregoing reasons as well as those previously set forth in Staff’s testimony and its Initial Brief, the Staff of the Illinois Commerce Commission respectfully requests that the Commission deny Nicor's request for an alternative accounting treatment for revenues associated with the proposed Expansion.

Respectfully submitted,

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